

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

PA-04 PRS-01 USIA-15 AGR-20 DRC-01 SCEM-02 INT-08

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R 051221Z NOV 73

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 0437

USDOC WASHDC

INFO AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY VIENNA

AMEMBASSY WARSAW

LIMITED OFFICIAL USE SECTION 01 OF 02 BUDAPEST 3635

E.O. 11652: N/A

TAGS: ETRD, EC, HU

SUBJECT: AMBASSADOR'S CALL ON TRADE MINISTER BIRO

REFS: A) BUDAPEST 3497; (B) BUDAPEST A-72 OF OCT 4, 1973;  
C) BUDAPEST 3360

COMMERCE FOR BEWT

VIENNA FOR EAST-WEST TRADE CENTER

1. BEGIN SUMMARY. DURING HOUR LONG CALL ON FOREIGN TRADE  
MINISTER BIRO, AMBASSADOR HAD OPPORTUNITY TO POSE QUESTIONS  
ABOUT POSSIBLE AREAS OF FUTURE INDUSTRIAL SPECIALIZATION  
IN HUNGARY, SPECIFIC OPPORTUNITIES FOR AMERICAN FIRMS  
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SEEKING TO DO BUSINESS HERE, THE CHANCES FOR SETTING UP JOINT  
ENTERPRISES WITH FOREIGN EQUITY PARTICIPATION, AND POSSIBLE  
FUTURE RELATIONSHIPS BETWEEN CEMA AND EEC. BIRO INDICATED  
THAT DEBATE TAKING PLACE AT PRESENT CONCERNING PRECISE

AREAS OF EMPHASIS WITH FURTHER ANNOUNCEMENTS TO BE MADE IN THREE OR FOUR MONTHS. ON MOST LIKELY AREAS OF EARLY US BUSINESS OPPORTUNITIES HERE HE REFERRED TO PAPER GIVEN TO SECRETARY DENT (BUDAPEST A-72), NOTING TWO PROJECTS IN THAT PAPER ALREADY TAKEN UP BY OTHERS. ON JOINT VENTURES HE CHARACTERIZED HUNGARY'S COMPLEX PRICING SYSTEM AND GENERAL NON-CONVERTIBILITY OF CEMA CURRENCIES AS BEING A PRACTICAL OBSTACLE (TO THE WESTERN COMPANIES) IN ESTABLISHMENT OF ENTERPRISES IN WHICH WESTERN FIRMS WOULD HAVE EQUITY PARTICIPATION. RE CEMA-EEC RELATIONS, BIRO DID NOT SAY MUCH ON GROUNDS NEGOTIATIONS NOW UNDER WAY, THOUGH HE IMPLIED HUNGARY HAD DIFFERENT INTERESTS FROM SOME OTHER CEMA COUNTRIES BECAUSE OF SIZE OF ITS AGRICULTURAL TRADE. HE ALSO SAID THAT HUNGARY'S TWO-WAY SHARE OF THE "DOLLAR TRADE" BETWEEN CEMA COUNTRIES WAS ABOUT \$100 MILLION ANNUALLY. END SUMMARY.

2. COURTESY CALL ON MINISTER OF FOREIGN TRADE BIRO LAST WEEK PROVIDED OPPORTUNITY TO EXPLORE SEVERAL AREAS OF GOH TRADE POLICY OF ECONOMIC OR COMMERCIAL INTEREST TO US. AMBASSADOR OPENED MEETING WITH REFERENCE TO RECENT PRESS STATEMENT BY BIRO CONCERNING NEED FOR HUNGARY TO SPECIALIZE IN THOSE AREAS WHERE ITS PRODUCTION MOST EFFICIENT FOR WORLD MARKET AND PHASE OUT PRODUCTION IN LESS PROFITABLE SECTORS (REF A). ASKED BIRO WHAT WOULD BE THE SPECIFIC AREAS IN WHICH HUNGARY EXPECTED TO SPECIALIZE. BIRO ANSWERED THAT IT WAS OF CRITICAL IMPORTANCE FOR HUNGARY TO BECOME MORE COMPETITIVE IN THE WORLD MARKET, SINCE EXPORTS ACCOUNTED FOR 40 PERCENT OF HUNGARIAN NATIONAL INCOME AND THAT THIS SHARE WOULD GO UP TO 50 PERCENT WITHIN NEXT SEVERAL YEARS. AT THE SAME TIME IT WAS DIFFICULT TO COME TO A FINAL DECISION AS TO EXACTLY WHAT PRIME AREAS OF CONCENTRATION WOULD BE. THIS DETERMINATION COULD NOT BE MADE SOLELY ON BASIS OF WHAT INDUSTRIES MOST CAPABLE OF COMPETING ABROAD MOST EFFECTIVELY, BUT ALSO DEPENDED ON IMPORTANT FACTORS SUCH AS COMPOSITION OF SKILLED SEGMENT OF HUNGARIAN LABOR FORCE. THEY HAD TO BE CAREFUL NOT TO DISTURB THEIR ECONOMY. FOR LIMITED OFFICIAL USE  
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EXAMPLE, IF IT WERE TO BE CONCLUDED THAT ELECTRONICS INDUSTRY COMPARATIVELY INEFFICIENT, BUT AT THE SAME TIME THERE IS A SIZEABLE SKILLED LABOR FORCE IN THE INDUSTRY WHICH WOULD HAVE TO BE RETRAINED FOR OTHER WORK IF ELECTRONICS WERE TO BE PHASED OUT, GOVERNMENT MIGHT DECIDE THAT IT IN NATIONAL INTEREST TO CHANNEL VERY LARGE INVESTMENTS INTO INDUSTRY TO MAKE IT COMPETITIVE AND EFFICIENT. BIRO SAID THAT THERE IS A CONSIDERABLE AMOUNT OF DEBATE TAKING PLACE RIGHT NOW ON THIS QUESTION. HE EXPECTED THAT FURTHER STATEMENTS

REGARDING FUTURE AREAS OF EMPHASIS IN THE ECONOMY WOULD BE FORTHCOMING IN THREE TO FOUR MONTHS.

4. AMBASSADOR TOLD BIRO THAT HE WAS INTERESTED IN FUTURE AREAS OF EMPHASIS SO THAT WE COULD PASS THIS ON TO AMERICAN COMPANIES WITH VIEW TO PROMOTING US-HUNGARIAN TRADE. BIRO REPLIED THAT HE HAD PROVIDED SUGGESTIONS REGARDING AREAS WHERE US FIRMS WOULD BE LIKELY TO FIND MAJOR NEW OPPORTUNITIES IN HUNGARY IN THE FORM OF LIST GIVEN TO SECRETARY DENT AND HAUGE OF MANUFACTURERS HANOVER. (WE ASSUME THIS LIST TO BE SAME AS THAT PROVIDED TO EMBASSY BY INSTITUTE FOR INTERNATIONAL ECONOMIC RELATIONS AND FORWARDED WITH OUR A-72). HUNGARY VERY MUCH INTERESTED IN PURCHASING ENTIRE PRODUCTION FACILITIES FROM WEST TO MODERNIZE PRODUCTION IN PRIORITY AREAS AND PERHAPS 50 OR SO SUCH PURCHASES CONTEMPLATED. HOWEVER, SINCE SUCH PURCHASES EXPENSIVE FOR COUNTRY LIKE HUNGARY WITH LIMITED HARD CURRENCY RESOURCES WILLINGNESS OF FOREIGN PARTNERS TO TAKE BACK SHARE OF PLANT'S FUTURE PRODUCTION AS PARTIAL PAYMENT COULD BE MOST IMPORTANT CONSIDERATION FROM HUNGARIAN SIDE WHEN DECIDING WHETHER OR NOT TO MAKE FINAL PURCHASES. MAKING SALES PITCH, BIRO URGED AMERICAN FIRMS TO QUICKLY INVESTIGATE AREAS OF PRIME GOH INTEREST "BEFORE BEST POSSIBILITIES ARE GONE", ADDING THAT COOPERATION AGREEMENTS HAVE ALREADY BEEN SIGNED IN ALUMINUM INDUSTRY WITH BRITISH AND FOR FURTHER DEVELOPMENT OF PVC PROGRAM WITH JAPANESE ( A \$10 MILLION CONTRACT) AND THAT THESE AREAS WERE THEREFORE NO LONGER OPEN.

3. COMMENTING ON HUNGARIAN JOINT VENTURE REGULATIONS WHICH WOULD PROVIDE FOR POSSIBLE FOREIGN EQUITY OF UP TO 49 PERCENT, LIMITED OFFICIAL USE  
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BIRO STATED THAT THERE WERE NUMBER OF PROBLEMS WHICH HAD THUS FAR OBSTRUCTED REALIZATION OF SUCH A JOINT ENTERPRISE, HUNGARY WAS PREPARED TO ENTER INTO THESE AS A MATTER OF PRINCIPLE BUT ECONOMIC BASE FOR THEM WAS NOT ATTRACTIVE. HE CITED COMPLEXITY OF HUNGARY'S THREE TIER INTERNAL PRICING SYSTEM AND ITS COMPLICATED METHOD OF SETTLING TRADE ACCOUNTS WITH ITS CEMA NEIGHBORS. IF A JOINT VENTURE WERE

TO BE SET UP WITHIN HUNGARY TO SELL DOMESTICALLY AND TO OTHER CEMA COUNTRIES, HE THOUGHT FOREIGN PARTNER WOULD WONDER HOW IT WOULD BE ABLE TO CALCULATE ITS SHARE OF PROFIT OR HOW IT WOULD RECEIVE IT. SUCH PARTNERS WERE UNLIKELY TO TAKE PART OF THEIR PROFIT SHARE IN NON-CONVERTIBLE CURRENCY. BIRO ADDED THAT "IF I WERE A CAPITALIST I WOULD BE MOST RELUCTANT TO PUT MY MONEY INTO SUCH AN UNDERTAKING". COMMENTING FURTHER HE SAID THAT COMPLI-  
CATIONS SUCH AS THESE HAD HAMPERED THE OPERATION OF JOINTLY OWNED CORPORATIONS IN ROMANIA AND YUGOSLAVIA AND THAT HE DID NOT KNOW OF A SINGLE INSTANCE IN EITHER COUNTRY WHERE SUCH A JOINT VENTURE HAD BEEN SUCCESSFUL AND PROFITABLE.

HE THOUGH IT MIGHT BE EASIER TO HAVE CONTRACTUAL ARRANGEMENTS SUCH AS AN AGREEMENT ON A LOAN WITH DEFINITE AMOUNTS OF INTEREST AND ANOTHER AGREEMENT ON SHARING OF PRODUCTION OR OTHER SIMILAR ARRANGEMENTS THAT IN TOTAL WOULD GIVE SIMILAR EFFECT TO REGULAR EQUITY INVESTMENT. HE SAID THERE WAS NO BARRIER TO EQUITY INVESTMENTS, WHICH WERE A POSSIBILITY FOR THE FUTURE, BUT THESE SHOULD BE GIVEN CAREFUL SCRUTINY TO INSURE THAT BOTH PARTIES HAD CONCLUDED DETAILED AGREEMENTS CONCERNING THE DISPOSAL OF THEIR MANUFACTURES AND THE SHARING OF PROFITS.

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INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

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PA-04 PRS-01 USIA-15 AGR-20 DRC-01 SCEM-02 INT-08

/193 W

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R 051221Z NOV 73

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 0438

USDOC WASHDC

INFO AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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4. BIRO THEN SPOKE BRIEFLY IN RESPONSE TO AMBASSADOR'S QUESTION ABOUT TRADING RELATIONSHIPS WITHIN CEMA, SAYING THAT PRESENT ARRANGEMENTS IN THE ORGANIZATION WERE "NOT ALL THAT UNFAVORABLE" FOR HUNGARY SINCE PRICES TENDED TO BE SET ARTIFICIALLY LOW FOR RAW MATERIALS AND HIGH FOR MANUFACTURES. AS HUNGARY HEAVY IMPORTER OF FORMER AND EXPORTER OF LATTER, THIS TENDENCY WAS QUITE ADVANTAGEOUS. TO ILLUSTRATE HIS POINT, BIRO SAID THEY PAID SOVIET 17 RUBLES A TON FOR OIL -- "QUITE A BARGAIN CONSIDERING WORLD MARKET PRICE".

5. CONCERNING HARD CURRENCY TRADE BETWEEN CEMA PARTNERS

BIRO STATED THAT WHEN COUNTRIES WISHED TO BUY ITEMS IN  
QUANTITIES OVER AND ABOVE QUOTAS PROVIDED IN BILATERAL  
AGREEMENTS THEY SOLD IN DOLLARS. HUNGARY'S TWO-WAY SHARE  
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OF SUCH TRADE WAS ABOUT \$100 MILLION YEARLY WITH IMPORTS  
AND EXPORTS GENERALLY BALANCING EACH OTHER OVER SEVERAL  
YEAR PERIOD. THIS YEAR HUNGARY EXPECTED TO REALIZE SUB-  
STANTIAL DOLLAR SALES OF WHEAT AND CORN (TO UNNAMED NEIGHBORS).  
AT THE SAME TIME IT WAS BUYING OIL FROM THE SOVIETS FOR  
DOLLARS (AT \$35 PER TON) ALTHOUGH OIL PURCHASES WERE  
"SMALLER THAN LAST YEARS".

6. AMBASSADOR THEN ASKED BIRO FOR HIS VIEWS REGARDING NATURE OF  
FUTURE RELATIONSHIP BETWEEN EEC AND CEMA, PARTICULARLY NOTING  
KADAR'S RECENT STATEMENT IN FINLAND (REF C) INDICATING THAT  
HUNGARY FAVORED INCREASED EEC-CEMA CONTACTS PRIMARILY AS A  
MEANS OF ENCOURAGING STATE TO STATE CONTACTS. BIRO SAID THAT  
THESE DISCUSSIONS WERE AT A VERY EARLY STAGE AND THAT HE  
COULD NOT COMMENT ON THEIR SUBSTANCE. SAID CEMA COUNTRIES HAD  
A COORDINATED POSITION BUT ADDED THAT HUNGARY HAD A SPECIFIC  
INTEREST IN CONTACTS WITH EEC COUNTRIES BECAUSE IT IS AN  
AGRICULTURAL EXPORTING COUNTRY.

7. AT END, AMBASSADOR SPOKE OF THE NEED FOR AMERICAN BUSINESS-  
MEN TO COME INTO CLOSER CONTACT WITH END USERS AND THEIR  
INTEREST IN BEING ABLE TO STATION PERMANENT REPRESENTATIVES  
IN HUNGARY AND ESTABLISH OFFICES. ASKED BIRO TO SUPPLY US  
WITH A COPY OF THE MATERIAL THE MINISTRY WAS PREPARING ON  
THIS SUBJECT IN RESPONSE TO HIS PROMISE TO SECRETARY DENT  
AS SOON AS IT WAS AVAILABLE. BIRO SAID HE WOULD BE  
HAPPY TO SUPPLY US WITH THIS MATERIAL BUT INDICATED IT MIGHT BE  
SEVERAL MORE WEEKS BEFORE IT WAS READY.  
PEDERSEN

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## Message Attributes

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USDOC INFO BUCHAREST  
MOSCOW  
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